

**HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
HOWARD COUNTY RETIREMENT PLAN**

JOINT MEETING OF THE RETIREMENT PLAN COMMITTEES

February 26, 2015

A joint meeting of the Retirement Plan Committees for the Howard County Police and Fire Employees' Retirement Plan (the "Police and Fire Plan") and the Howard County Retirement Plan (the "Employees Plan") (jointly, the "Plans") was held on Thursday, February 26, 2015 at 1:30 p.m. in the Columbia/Ellicott City Room at the George Howard Building, 3430 Court House Drive, Ellicott City, Maryland 21043.

Police and Fire Plan:

Members Present:

Acting Human Resources Administrator: Wanda Hutchinson
Chief Administrative Officer: Lonnie Robbins
Director of Finance: Stanley Milesky
Budget Director: Holly Sun
Representative, Police Department Supervisory Employees:
 Jason Luckenbaugh (Non-Voting Member in Fiscal Year 2015)
Representative, Fire and Rescue Supervisory Employees:
 Joseph L. Calo, II (Voting Member in Fiscal Year 2015)
Representative, Howard County Police Officers' Association, Lodge 21:
 Mark Thomey

Members Absent:

Representative, International Association of Firefighters, Local 2000:
 Richard Ruehl (Proxy to Lonnie Robbins)

Employees Plan:

Members Present:

Acting Human Resources Administrator: Wanda Hutchinson
Chief Administrative Officer: Lonnie Robbins
Deputy Director of Finance: Rafiu Ighile
Budget Director: Holly Sun
Employee Representative: Jeff Bronow
Representative, American Federation of State, County and
 Municipal Employees Local 3080: Kim Drennon
Representative, American Federation of State, County and Municipal
 Employees Local 3085: Dale R. Chase

Also present for all or a portion of the meeting were:

Steve Peters, County Auditor's Office
Sima Taghavi, Department of Finance
Thomas Lowman and Ann Sturner of Bolton Partners
Eric Ralph, Summit Strategies Group
Paul W. Madden, Whiteford, Taylor & Preston L.L.P.
Teresa M. Reider, Retirement Coordinator
Scott Southern, Retirement Assistant, Office of Human Resources
Chuck Lindenberg, Representative of Local 3085

Wanda Hutchinson acted as Chair of the meeting and Paul Madden acted as Secretary.

The minutes of the January 22, 2015 meeting were unanimously approved by the members of both Committees.

Next, Tom Lowman and Ann Sturner reviewed the actuarial valuations for the Plans as of July 1, 2014. Tom Lowman reviewed the actuarial valuation results for the Employees Plan. In reviewing the participant summary, Tom noted that the retirees constitute a little over 20% of the total participants. Accordingly, the Plan is still a young plan. The active average age and the active average service have not changed significantly over the past five years.

For fiscal year ending June 30, 2015, the County contribution rate was 13.5% of covered payroll. For fiscal year ending June 30, 2016, the County contribution rate is reduced to 12.4%. Tom noted that over the past 10 years, the County contribution rates have ranged from 11.9% to 13.6%. The change in the County's contribution rate is the result of investment returns in excess of the investment return assumption and changes in actuarial assumptions.

The key assumption change was a reduction of the investment return assumption from 7.75% to 7.50%, both net of investment expenses. Without an offsetting increase in the investment return, the assumption changes would have increased the contribution rate by about 0.5%.

The investment return on an actuarial basis for the year ended June 30, 2014 was 11.6%. This significantly exceeded the 7.75% net return assumption. Tom noted that there are \$21.1 million of unrecognized investment gains in the current valuation, which may lead to future actuarial gains.

Tom also noted that the funded ratio increased from 86.2% as of July 1, 2013 to 90.6% as of July 1, 2014. The Plan is over 95% funded on a market value of assets basis.

Next, Ann Sturner reviewed the actuarial valuation results for the Police and Fire Plan as of July 1, 2014. In reviewing the participant summary, Ann noted that the Police and Fire Plan is still a young plan. Between 20 and 25 percent of the total participants are retirees or beneficiaries.

The County contribution rate for the Police and Fire Plan for fiscal year ending June 30, 2015 is 32.0% of covered payroll. For the fiscal year ending June 30, 2016, the County contribution rate will be 30.0%.

The reasons for the rate change are the assumption changes and investment returns. The key assumption change was a reduction of the investment return assumption from 7.75% to 7.50%, both net of investment expenses. Without an offsetting increase in the investment return, the assumption changes would have increased the contribution rate by about 2.0%.

The investment return on an actuarial basis for the year ended June 30, 2014 was 11.0%. This significantly exceeded the 7.75% net return assumption. Ann also noted that investment gains of \$23.9 million are not yet recognized.

The funding ratio for the Police and Fire Plan improved from 75.2% as of July 1, 2013 to 78.6% as of July 1, 2014. Ann noted that the Plan is over 80% funded on a market value of assets basis.

Each Committee accepted the actuarial reports. Holly Sun noted that fiscal year 2016 budgets will include the recommended contributions.

Next, Eric Ralph reviewed the investment performance for periods ending December 31, 2014. As of December 31, 2014, assets in the Master Trust equaled \$456.6 million.

Eric noted that the winners for the trailing 12 months were REITs (+30.1%) and Long-Term Treasury Bonds (+25.1). In addition, the S&P 500 Index gained 13.7%. Losers for the trailing 12 months included commodities, international stocks and emerging markets.

Within the Howard County Master Trust, the Domestic Large Cap Equity Composite returned +13.6% which outperformed the Russell 1000 Index by 38 basis points. William Blair returned +11.5% which was 4.5% ahead of its benchmark. In addition, private equity had an absolute return of +19.7% and the Hedge Fund Composite returned +6.3% which outperformed the Fund of Funds Composite Index by 3.0%.

Eric noted that the five year and the seven year returns of the total fund composite rank in the bottom quartile of the peer universe. On a five-year basis, the fund had an annualized return of +8.74% while the median plan in the peer universe returned +9.88%. On a seven-year basis, the fund had an annualized return of +4.81% and the median plan in

the peer universe returned +5.58%. Eric noted that the total fund composite returns over five and seven years exceeded the total implementation index for the same periods. However, the fund's under allocations to US Equities, International Fixed Income and real estate hurt the fund's performance relative to peers.

Next, Eric reviewed the private equity portfolio as of September 30, 2014. This portfolio produced a +14.4% net internal rate of return and a +6% return in the third quarter of 2014. The primary driver for this performance was Greenspring Secondaries I, which returned +27% for the quarter. FLAG Private Equity V returned +19%.

For the remainder of 2015, Summit recommends allocation of \$5.0 million to an emerging markets manager. Among the managers Summit recommends are Axiom Asia, LGT and Commonfund. Rafiu Ighile will chair an investment subcommittee to interview the managers and make a recommendation to the full Committee.

Next Eric reviewed PIMCO's temporary fee proposal. PIMCO has offered to replace its standard fee with a performance-based fee for 2015. Eric included a chart which shows the fees which PIMCO would have earned if the temporary performance-based fee had been in place in each of the last 11 years. PIMCO's fees would have ranged from a low of 25% of the standard fee to a high of 110% of the standard fee. PIMCO's average performance over this period would have resulted in a performance fee which is 77% of the standard fee. Eric also noted that Howard County has the opportunity at the end of the third quarter to opt out of the performance-based fee if it appears that PIMCO's performance-based fee will exceed the standard fee. Summit will make a recommendation to the County on whether or not to opt out at the appropriate time. After discussion, the Committee unanimously approved PIMCO's temporary fee proposal.

Next, Paul Madden reviewed with the Joint Committee recommended changes to the Investment Policy Statement. Paul Madden noted that certain dates within the policy need to be changed to reflect the date of this meeting. Each Committee unanimously adopted the amended Investment Policy Statement as revised to correct these dates.

Paul Madden made a presentation to the Joint Committee on Fiduciary Duties. During the presentation, several members of the Joint Committee made comments and asked questions.


Lonnie Robbins noted that there has been some confusion about the applicability of the County's travel policy to the Plans. The Committee recognizes the need for Committee members to receive continuing investment and fiduciary education and that most appropriate education opportunities are outside the State of Maryland. Accordingly, for fiduciary and investment education purposes, travel of Committee members is not restricted to the State of Maryland.

There being no further business for the Police & Fire Plan, the meeting of the Joint Committees adjourned.

At 4:30 p.m. a Motion was made by Rafiu Ighile and seconded by Jeff Bronow to close the meeting pursuant to State Government Article Section 10-508(a)(1)(ii) to discuss a personnel matter that affects one or more specific individuals and pursuant to Section 10-508(a)(7) to consult with legal counsel to obtain legal advice on a legal matter. Wanda Hutchinson, Lonnie Robbins, Rafiu Ighile, Holly Sun, Jeff Bronow, Kim Drennon and Dale Chase voted in favor of the motion. There were no negative votes, abstentions or absences. During the meeting, the Committee discussed issues relating to the appeal of a disability matter.

At the conclusion of the closed session, the meeting of the Employees Plan adjourned.

Respectfully submitted,



Paul W. Madden
Secretary of the Meeting